PRESENT LAW AND POSSIBLE REVENUE OPTIONS RELATING TO THE MEDICARE CATASTROPHIC INSURANCE PROGRAM

Scheduled for a Markup

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INTRODUCTION

The Senate Committee on Finance has scheduled a markup on September 7, 1989, on the Medicare catastrophic insurance program of the Medicare Catastrophic Coverage Act of 1988.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a discussion of present law, possible revenue options proposed, and distributional effects of the supplemental premium and options.

Part I of the document provides a summary description of present law relating to Medicare benefits and financing of the benefits. Part II describes possible revenue options. The Appendix provides data on the distribution of the current Medicare supplemental premium by income group.

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[1] This document may be cited as follows: Joint Committee on Taxation, Present Law and Possible Revenue Options Relating to the Medicare Catastrophic Insurance Program (JCX-45-89), September 7, 1989.

I. PRESENT LAW

A. Medicare Benefits

In general

Medicare is a nationwide health insurance program for the aged and certain disabled persons. Medicare consists of three parts: the hospital insurance program (Part A), the supplementary medical insurance program of Part B (SMI), and the catastrophic drug insurance program of Part B (CDI).

Individuals who have attained age 65 and who are eligible for monthly social security or railroad retirement benefits are covered under Part A of Medicare at no cost. Part A coverage is also available at no cost to certain disabled individuals who have not attained age 65 and to persons who have end-stage renal disease. Persons who have attained age 65 and who are not eligible for social security or railroad retirement benefits may obtain Part A coverage providing they pay for the coverage. The monthly premium for such coverage, as of January 1, 1989, is $156.

Within limits, Part A of Medicare provides coverage for inpatient hospital care, skilled nursing facility care, home health care, and hospice care.

Coverage under Part B, which includes the SMI and the CDI programs, is voluntary. All persons age 65 or older and individuals eligible for Part A benefits by virtue of disability or end-stage renal disease may elect to enroll in both these programs by paying the monthly premium. Enrollees may not elect to enroll in only one of these programs.

SMI covers doctor's services, other medical and health services (e.g., laboratory and other diagnostic tests, ambulance services, outpatient services at a hospital), and certain home health services not covered under Part A. SMI covers 80 percent of the reasonable charges for such services, subject to a deductible. Beginning in 1990, enrollees in Part B will also be eligible for prescription drug benefits.

Benefits under the Medicare Catastrophic Act of 1988

The Medicare Catastrophic Act of 1988 (the "Act") significantly expanded the benefits covered by Medicare. Major changes to the benefits are described below.

Part A benefits

Inpatient hospital care.--Under the Act, Medicare pays all hospital inpatient costs above an annual deductible amount ($560 for 1989). Under prior law, the number of days covered by Medicare was limited for a single spell of illness, covered individuals paid a deductible for each spell of illness, and

coinsurance amounts were payable after the 60th day of each spell of illness. The Act eliminated the concept of a spell of illness, which began with a hospital admission and ended on the 61st day following discharge from the hospital or from a skilled nursing facility (SNF) entered after the hospital stay.

Skilled nursing facility care.--Under the Act, the limit on SNF care is 150 days per year, and no prior inpatient stay is required for coverage. Coinsurance payments are required for the first 8 days of care each year, at a rate of 20 percent of average SNF costs per day ($25.50 for 1989). Under prior law, the limit on SNF care was 100 days per spell of illness, after a hospital stay of at least 3 days. Coinsurance payments were required for days 21 through 100 at a rate of 1/8th of the deductible amount ($67.50 for 1988).

Home health care.--Under prior law and the Act, there is no limit on the overall number of covered home health care visits and no coinsurance requirement. To be covered, home health care visits must be required on an intermittent basis. Under prior law, the intermittent requirement was interpreted to mean that there could be 5 to 7 visits a week, for 2 to 3 consecutive weeks. Under the Act, beginning in 1990, covered individuals may receive up to 38 consecutive days of home health care, 7 days a week.

Hospice care.--The Act eliminated the 210-day lifetime limit on hospice care.

Part B benefits

SMI benefits.--Beginning in 1990, the Act expands Part B benefits. Each enrollee's annual liability for Part B copayments is capped. The cap is $1,370 for 1990, and will be adjusted each year to keep the proportion of enrollees subject to the cap constant at 7 percent. Part B coverage is expanded to include mammography screening for women, subject to a maximum of $50 (indexed) per screening and the usual copayment requirements. In addition, once sufficient costs have been incurred to receive benefits under either the copayment cap or the new drug provisions (see below), enrollees are eligible for respite benefits. Under this benefit, Medicare will pay 80 percent of reasonable costs for up to 80 hours a year of in-home personal services, to give the usual caretakers of homebound enrollees a respite.

Catastrophic drug insurance.--Effective January 1990, the Act provides coverage for drugs administered intravenously at home and for immunosuppressive drugs after the first year following a transplant, subject to an annual deductible amount of $550. Coinsurance of 20 percent will be required on drugs administered intravenously, while coinsurance will initially be 50 percent for newly-covered immunosuppressive drugs. (Medicare already covers 80 percent of the costs of immunosuppressive drugs in the first year following an organ transplant.)

Effective January 1991, the CDI program will be expanded. Coverage will include all outpatient prescription drugs and insulin, subject to an annual deductible amount ($600 in 1991) that will be adjusted each year to keep the proportion of enrollees paying the maximum deductible constant at 16.8 percent. Coinsurance requirements will be 50 percent of reasonable charges above the deductible in 1991, 40 percent in 1992, and 20 percent in 1993 and subsequent years.

B. Financing of Medicare Benefits

Part A benefits

Part A benefits are financed through the Hospital Insurance Trust Fund. This trust fund is financed primarily through payroll tax contributions paid by employers, employees, and the self-employed. The payroll tax rate for 1989 is 1.45 percent of compensation up to $48,000 per employee. An equal amount is paid by the employer. Self-employed individuals pay both the employers' and employees' portion of the tax.

SMI benefits

SMI benefits are funded through the Supplementary Medical Insurance Trust Fund (SMI Trust Fund) by premiums paid by enrollees in the Part B program and general revenues. In 1989 a temporary provision requires that enrollee premiums provide 25 percent of the financing of Part B. Thereafter, premium rates will be derived annually based upon the projected costs of the program for the coming year, but premium increases will be limited to increases in the social security cost-of-living adjustment. Therefore, the share of benefits financed by premiums is expected to drop below 25 percent, while the general revenue share will grow. The basic Part B monthly premium for 1989 is $27.90, without regard to the additional premium added by the Act (see below).

Financing of benefits under the Medicare Catastrophic Coverage Act of 1988

In general

The new benefits provided by the Act are financed through the combination of (1) an increase in the Part B flat monthly premium and (2) a new supplemental premium based on income tax liability. It was anticipated that the supplemental premium would finance approximately 63 percent of the costs under the Act, and that the flat premium would finance the remaining 37 percent of costs.

Flat premium

The Act provides for increases in the monthly Part B premium otherwise determined to finance the catastrophic coverage benefit and the prescription drug benefit. Through 1993, the amount of

the increase is set by law. After 1993, the flat premium is adjusted through use of a formula designed to maintain a reserve for the catastrophic program.

For 1989-1993, the additional flat monthly premium for Part B enrollees is as follows[2]:

Year	Catastrophic Coverage Premium	Prescription Drug Premium	Total Catastrophic Flat Premium
1989	$4.00	$ .00	$ 4.00
1990	4.90	.00	4.90
1991	5.46	1.94	7.40
1992	6.75	2.45	9.20
1993	7.18	3.02	10.20

Supplemental premium

The supplemental premium is payable in a year by any individual who is eligible for Part A of Medicare for at least 6 months during the year (except for those who pay the Part A premium), who has income tax liability for the year of at least $150, and who resides in one of the 50 states or the District of Columbia. Subject to a limit on the maximum premium payable by an individual, the annual premium is determined by multiplying (1) the supplemental premium rate by (2) the amount determined by dividing the individual's adjusted income tax liability by $150.

For years 1989 through 1993, the supplemental premium rate is set by law. For years after 1993, the supplemental premium rate will be adjusted by a formula that is designed to maintain a reserve for the catastrophic program.

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[2] Residents of Puerto Rico, other U.S. commonwealths or territories, and individuals not entitled to or eligible for Medicare Part A have different premium schedules.

The supplemental premium rate for 1989-1993 is equal to the sum of the catastrophic coverage premium rate and the prescription drug premium rate as follows:

Year	Catastrophic Coverage Premium	Prescription Drug Premium	Total Supplemental Premium	Total Percent Rate[3]
1989	$22.50	$ .00	$22.50	15%
1990	27.14	10.36	37.50	25
1991	30.17	8.83	39.10	26
1992	30.55	9.95	40.50	27
1993	29.55	12.45	42.00	28

The maximum annual supplemental premium is not to exceed the following amounts for 1989-1993:

In the case of taxable years beginning in:	The limitation is:
1989	$800
1990	850
1991	900
1992	950
1993	1,050

For years after 1993, the cap on the maximum supplemental premium is increased through the use of a formula..

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[3] This column shows the total supplemental premium as a percent of tax liability.

III. DESCRIPTION OF POSSIBLE REVENUE OPTIONS

A. Reduce Supplemental Premium Rates and Caps

Present Law

The supplemental premium rates are 15 percent of tax liability in 1989, 25 percent in 1990, 26 percent in 1991, 27 percent in 1992, and 28 percent in 1993. The maximum supplemental premium per enrollee is $800 in 1989, $850 in 1990, $900 in 1991, $950 in 1992, and $1,050 in 1993.

Explanation of Proposals

1. The supplemental premium rate would be 15 percent of tax liability and the maximum supplemental premium per enrollee would be $585 through calendar year 1994.

2. Alternatively, the supplemental premium rate would be 10 percent of tax liability and the maximum supplemental premium per enrollee would be $585 through calendar year 1994.

3. Alternatively, the supplemental premium rate would be 10 percent of tax liability for calendar year 1989 and 15 percent thereafter. The maximum supplemental premium per enrollee would be $585 through calendar year 1994.

Revenue Effect

(Fiscal years; billions of dollars)

Proposal	1990	1991	1992	1993	1994	1990-1994
1. 15 percent rate/maximum premium of $585	-1.5	-2.7	-2.9	-3.5	-4.3	-14.9
2. 10 percent rate/maximum premium of $585	-2.7	-3.7	-3.8	-4.4	-5.2	-19.8
3. 10 percent rate for 1989, 15 percent thereafter/ maximum premium of $585	-2.3	-2.7	-2.9	-3.5	-4.3	-15.7

B. Increase the Wage Base for the Medicare Hospital Insurance Tax to $60,000

Present Law

FICA taxes are generally imposed on the employee and the employer at equal rates. The current tax rate for both the employer and the employee is 7.51 percent of wages (7.65 percent in 1990 and thereafter), consisting of 6.06 percent (6.2 percent in 1990 and thereafter) for Old-Age, Survivors and Disability Insurance (OASDI) and 1.45 percent for Medicare Hospital Insurance (HI). Corresponding taxes are imposed on earnings from self-employment.

The amount of earnings from employment subject to both the OASDI and HI taxes are capped at $48,000 in 1989. The earnings base increases each year based on the increase in average wages in the economy. The earnings base is currently projected to be $50,700 in 1990.

Explanation of Proposal

Beginning in 1990, the earnings base for the HI tax would be increased to $60,000, or the earnings base for the OASDI tax, whichever is greater.

Revenue Effect
(Fiscal years; billions of dollars)

Proposal	1990	1991	1992	1993	1994	1990-94
Increase wage base to $60,000	0.6	1.6	1.1	0.5	0.1	3.9

APPENDIX A:
DISTRIBUTIONAL EFFECT OF THE SUPPLEMENTAL PREMIUM

Table 1

Medicare Catastrophic Coverage Act of 1988
Distribution of Medicare Enrollees
By Level of Supplemental Premium

(Calendar Year 1989)

Supplemental Premium Per Enrollee	Medicare Enrollees (Thousands)	Percent Distribution
Not Subject To Premium.....	19,248	58.8
Less than $100.....	4,031	12.3
100 to 199.....	2,824	8.6
200 to 299.....	2,024	6.2
300 to 399.....	1,093	3.3
400 to 499.....	626	1.9
500 to 599.....	335	1.0
600 to 699.....	460	1.4
700 to 799.....	261	0.8
Maximum Premium ($800).....	1,848	5.6
TOTALS.....	**32,750**	**100.0**

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Table 2

Medicare Catastrophic Coverage Act of 1988
Distribution of Medicare Enrollees
By Level of Supplemental Premium

(Calendar Year 1993)

Supplemental Premium Per Enrollee	Medicare Enrollees (Thousands)	Percent Distribution
Not Subject To Premium.....	18,387	52.4
Less than $100.....	2,302	6.6
100 to 199.....	2,555	7.3
200 to 299.....	1,599	4.6
300 to 399.....	1,648	4.7
400 to 499.....	1,270	3.6
500 to 599.....	1,187	3.4
600 to 699.....	914	2.6
700 to 799.....	744	2.1
800 to 899.....	473	1.4
900 to 999.....	240	0.7
1,000 to 1,049.....	145	0.4
Maximum Premium ($1,050).....	3,612	10.3
TOTALS.....	**35,076**	**100.0**

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TABLE 3

MEDICARE CATASTROPHIC COVERAGE ACT OF 1988

[Calendar Year 1989]

Income Class (Thousands of Dollars)	JOINT RETURNS Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2]	NON-JOINT RETURNS Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2]
$ 0 - $ 5...	$ 2,597	$ 0	$ 0.00	$ 3,071	$ 0	$ 0.00
5 - 10...	7,701	-14	0.00	7,056	-1	0.00
10 - 15...	12,556	-27	0.00	12,376	105	0.00
15 - 20...	17,514	13	0.00	17,196	576	86.40
20 - 25...	22,516	396	29.70	22,219	1,410	211.50
25 - 30...	27,545	930	69.75	27,274	2,035	305.25
30 - 35...	32,378	1,559	116.93	32,333	2,902	435.30
35 - 40...	37,599	2,281	171.08	37,254	4,773	715.95
40 - 45...	42,374	3,057	229.28	42,840	6,396	800.00
45 - 50...	47,516	4,147	311.03	47,076	7,637	800.00
50 - 55...	52,052	4,991	374.33	52,402	8,778	800.00
55 - 60...	57,527	6,683	501.23	56,638	9,932	800.00
60 - 65...	62,609	8,204	615.30	60,929	10,209	800.00
65 - 70...	67,491	9,848	736.80	67,288	9,603	800.00
70 - 75...	72,097	10,186	762.45	72,336	12,023	800.00
75 - 80...	77,757	10,239	767.93	76,692	13,422	800.00
80 - 100...	88,227	14,299	800.00	88,987	17,625	800.00
100 - 200...	136,677	25,315	800.00	138,035	30,268	800.00
200 and up...	643,630	139,278	800.00	666,848	137,122	800.00

Joint Committee on Taxation
September 6, 1989

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[1]/ Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computation of AGI.

[2]/ Computed at average tax liability per return in income class.

TABLE 4

MEDICARE CATASTROPHIC COVERAGE ACT OF 1988

[Calendar Year 1993]

JOINT RETURNS				NON-JOINT RETURNS			
Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2]	Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2]
$ 0 - $ 5...	$ 2,357	$ -9	$ 0.00	$ 0 - $ 5...	$ 2,885	$ 0	$ 0.00
5 - 10...	7,930	-12	0.00	5 - 10...	7,548	-1	0.00
10 - 15...	12,771	-32	0.00	10 - 15...	12,156	39	0.00
15 - 20...	17,417	-21	0.00	15 - 20...	17,333	376	105.28
20 - 25...	22,449	240	33.60	20 - 25...	22,380	1,020	285.60
25 - 30...	27,458	554	77.56	25 - 30...	27,412	1,649	461.72
30 - 35...	32,520	911	127.54	30 - 35...	32,373	2,295	642.60
35 - 40...	37,453	1,592	222.88	35 - 40...	37,257	3,604	1,009.12
40 - 45...	42,376	2,319	324.66	40 - 45...	42,631	4,856	1,050.00
45 - 50...	47,445	3,099	433.86	45 - 50...	47,400	6,670	1,050.00
50 - 55...	52,384	4,068	569.52	50 - 75...	60,698	9,044	1,050.00
55 - 60...	57,230	4,958	694.12	75 - 100...	87,293	14,592	1,050.00
60 - 65...	62,383	6,530	914.20	100 - 200...	130,153	28,074	1,050.00
65 - 70...	67,341	7,607	1,050.00	200 and up...	534,697	113,030	1,050.00
70 - 75...	72,377	8,596	1,050.00				
75 - 80...	78,037	9,598	1,050.00				
80 - 85...	83,161	10,791	1,050.00				
85 - 100...	91,755	13,676	1,050.00				
100 - 200...	137,632	23,372	1,050.00				
200 and up...	623,120	136,694	1,050.00				

Joint Committee on Taxation
September 6, 1989

1/ Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computation of AGI.

2/ Computed at average tax liability per return in income class.